

Message Text

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OES FOR KRATZER; COMMERCE PASS DR. S. KATZ

EO 11652: GDS

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SUBJ: VISIT OF SECRETARY OF COMMERCE RICHARDSON TO YUGOSLAVIA:
BILATERAL ECONOMIC TOPICS

REF: BELGRADE 7792

SUMMARY: IN DISCUSSIONS WITH PRIME MINISTER BIJEDIC, FOREIGN SECRETARY MINIC AND FOREIGN TRADE SECRETARY LUDVIGER, SECRETARY RICHARDSON REAFFIRMED HIGH-LEVEL U.S. INTEREST IN YUGOSLAVIA WHILE USING APPROPRIATE OPPORTUNITIES TO REMIND HIS HOSTS THAT CONSTRUCTIVE RELATIONS DEPEND ON THE SATISFACTORY COURSE OF POLITICAL AS WELL AS ECONOMIC RELATIONS IN BOTH MULTILATERAL AND BILATERAL CONTEXT. SECRETARY ALSO MET WITH PRESIDENT TITO AT LATTER'S NATIONAL DAY RECEPTION. YUGOSLAVS WERE CLEARLY PLEASED WITH VISIT. MEDIA COVERAGE WAS FAVORABLE. BILATERAL ISSUES DISCUSSED (AND SUMMARIZED BELOW) WERE STRONG YUGOSLAV ANXIETY OVER NON-ISSUANCE OF US EXPORT LICENSES FOR KRSKO NUCLEAR POWER PROJECT, YUGOSLAV COMMITMENT TO RECENT AGREEMENT ON EXPORT CONTROLS, US CONCERNS OVER YUGOSLAV IMPEDIMENTS TO FOREIGN INVESTMENT AND PROHIBITION OF FOREIGN SALES OFFICES
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IN YUGOSLAVIA, US GENERALIZED SYSTEM OF PREFERENCES, MARAD

DENIAL OF WAIVERS TO PERMIT TRANSPORTATION OF EXIMBANK-FINANCED US EXPORTS ON YUGOSLAV VESSELS, AND YUGOSLAVIA'S INTEREST IN BILATERAL AIR AGREEMENT. SEPARATE EMBASSY CABLES REPORT MINIC DISCUSSION WITH SECRETARY ON NORTH-SOUTH ISSUES AND YUGOSLAV RELATIONS WITH SOVIET UNION. MEMCONS FOLLOW BY POUCH. END SUMMARY.

1. DURING TWO-DAY PROGRAM IN YUGOSLAVIA SECRETARY RICHARDSON AND HIS PARTY HELD TWO COMPREHENSIVE WORKING SESSIONS WITH FOREIGN TRADE SECRETARY EMIL LUDVIGER AND YUGOSLAV DELEGATION, MET WITH PRIME MINISTER BIJEDIC, HELD LENGTHY DISCUSSION WITH FOREIGN SECRETARY MINIC AND ATTENDED PRESIDENT TITO'S NATIONAL DAY RECEPTION AS WELL AS DINNER GIVEN BY DR. LUDVIGER AND RECIPROCAL DINNER FOR YUGOSLAWS.

2. THE SECRETARY'S VISIT SERVED AS USEFUL DEMONSTRATION OF HIGH LEVEL INTEREST IN YUGOSLAVIA WHILE PROVIDING YUGOSLAWS WITH EVER-NEEDED REMINDER THAT CONSTRUCTIVE RELATIONS DEPEND ON SMOOTH COURSE OF POLITICAL AS WELL AS ECONOMIC DEVELOPMENTS, IN MULTILATERAL AS WELL AS BILATERAL CONTEXT. IN REVIEWING BILATERAL TRADE AND INVESTMENT RELATIONS, THE SECRETARY REITERATED USG CONCERNS OVER YUGOSLAV IMPEDIMENTS TO FOREIGN INVESTMENT AND PROHIBITION ON OPENING OF FOREIGN SALES OFFICES IN THIS COUNTRY.

3. YUGOSLAWS WERE CLEARLY PLEASED WITH THE VISIT AND HIGHLY IMPRESSED WITH THE SECRETARY. THEY WELCOMED HIS REAFFIRMATION IN MEETINGS WITH YUGOSLAV OFFICIALS AND THE PRESS OF U.S. INTEREST IN YUGOSLAVIA'S INDEPENDENCE, TERRITORIAL INTEGRITY AND NONALIGNMENT. WHILE THEY DESCRIBED BILATERAL ECONOMIC RELATIONS AS GENERALLY SATISFACTORY AND EXPANDING, THEY REGISTERED ACUTE ANXIETY OVER DELAY IN ISSUANCE OF EXPORT LICENSES FOR KRSKO NUCLEAR POWER PROJECT. OTHER BILATERAL TOPICS RAISED BY THE YUGOSLAWS INCLUDED THEIR COMMITMENT TO RECENT AGREEMENT ON EXPORT CONTROL, THEIR INTEREST IN THE GENERALIZED SYSTEM OF PREFERENCES, AND THEIR PREOCCUPATION OVER MARAD DENIAL OF WAIVERS WHICH WOULD CONTINUE TO PERMIT SHIPMENT OF EXIMBANK-FINANCED CARGOES IN YUGOSLAV BOTTOMS. SECRETARY LUDVIGER DESCRIBED YUGOSLAVIA'S TRADE POLICY TO THE SECRETARY AND, IN AN UNUSUALLY EXTENDED SESSION (OVER TWO CONFIDENTIAL

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HOURS), SECRETARY MINIC UNBURDENED HIMSELF ON NORTH-SOUTH RELATIONS AND DISCUSSED YUGOSLAV VIEW TOWARD THE EAST IN THE WAKE OF BREZHNEV VISIT.

4. REFLECTING THE POSITIVE OFFICIAL ATTITUDE TOWARD SECRETARY RICHARDSON'S VISIT, THE YUGOSLAV MEDIA PROVIDED FAVORABLE COVERAGE. YUGOSLAV TELEVISION FEATURED THE SECRETARY THE EVENING OF HIS ARRIVAL AND THE PRESS PROVIDED COVERAGE

THROUGHOUT, INCLUDING OF HIS PRESS CONFERENCE NEAR THE END OF THE VISIT. THE ATTENTION ACCORDED TO SECRETARY RICHARDSON BY BOTH YUGOSLAV OFFICIALDOM AND THE PRESS WAS PARTICULARLY NOTABLE BECAUSE YUGOSLAVS WERE ALSO ENGROSSED IN NATIONAL DAY CEREMONIES AND ENACTMENT OF THE LONG-AWAITED LAW ON ASSOCIATED LABOR.

5. BILATERAL ECONOMIC TOPICS DISCUSSED DURING SECRETARY'S VISIT ARE SUMMARIZED BELOW. THE EMBASSY HAS ALREADY REPORTED MINIC'S REMARKS ON RELATIONS WITH THE SOVIET UNION (REFTEL) AND WILL ALSO CABLE SEPARATE REPORT ON HIS REMARKS CONCERNING NORTH-SOUTH RELATIONS. DETAILED (UNCLEARED) MEMORANDA OF THE SECRETARY'S CONVERSATIONS WILL FOLLOW BY POUCH.

5. NUCLEAR EXPORT LICENSE: BIJEDIC, MINIC AND LUDVIGER ALL REGISTERED SERIOUS CONCERN OVER US DELAY IN ISSUING LICENSES TO EXPORT EQUIPMENT AND FUEL FOR THE KRSKO NUCLEAR POWER INSTALLATION UNDER CONSTRUCTION BY WESTINGHOUSE. THEY POINTED OUT THAT DURING NEGOTIATION OF THE CONTRACT, SENIOR USG OFFICIALS HAD URGED YUGOSLAVIA TO ACCEPT U.S. TECHNOLOGY. NOW, THE STRESSED, NON-ISSUANCE OF US NUCLEAR EXPORT LICENSES WAS EMERGING AS A POLITICAL PROBLEM FOR WHICH THE INVESTORS ARE TRYING TO FIX POLITICAL RESPONSIBILITY. THE YUGOSLAVS EMPHASIZED THE URGENCY OF THE MATTER, WITH LUDVIGER REQUESTING ISSUANCE OF LICENSE BY PRESENT ADMINISTRATION. HE POINTED OUT THAT SERIOUS PENALTIES WOULD RESULT UNLESS THE REACTOR ARRIVED ON SITE FOR INSTALLATION BY MARCH ONE. (EMBASSY COMMENT: TO BE AT THE SITE MARCH ONE, THE REACTOR WOULD HAVE TO BE SHIPPED FROM THE UNITED STATES AT AN EARLY DATE.) FAILURE TO REACH EARLY RESOLUTION OF THE ISSUE, THE YUGOSLAVS ASSERTED, COULD HARM U.S./YUGOSLAV RELATIONS.

6. THE SECRETARY POINTED OUT THAT LICENSING IS THE LEGAL
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RESPONSIBILITY OF THE INDEPENDENT US NUCLEAR REGULATORY COMMISSION, BUT EXPRESSED HOPE THAT THE USG WOULD BE IN A POSITION SOON TO PROVIDE THE YUGOSLAV GOVERNMENT WITH INFORMATION CONCERNING THE SAFEGUARDS THAT THE US BELIEVES SHOULD BE PART OF THE PROJECT.

7. EMBASSY NOTE: AFTER THE SECRETARY'S DEPARTURE, FOREIGN TRADE COUNSELOR VLAHOV, A MEMBER OF THE YUGOSLAV DELEGATION, AGAIN RAISED THE NUCLEAR LICENSE ISSUE WITH AN EMBASSY OFFICER. VLAHOV ALLEGED HAGLNG SEEN SPECULATION IN THE U.S. PRESS THAT U.S. NUCLEAR EXPORT POLICY WOULD REQUIRE MANY MONTHS TO CRYSTALLIZE. HE REITERATED APPREHENSION THAT ANY SIMILAR DELAY IN NUCLEAR LICENSE ISSUANCE COULD THROW CONSTRUCTION TIMETABLE COMPLETELY OUT OF KILTER AND CREATE YUGOSLAV INTERNAL AND BILATERAL POLITICAL DIFFICULTIES. HE NOTED THAT GOY, RESPONDING TO

U.S. WISHES ON SAFEGUARDS, HAD NEGOTIATED TRILATERAL AGREEMENT INVOLVING IAEA. PARAPHRASING SECRETARY RICHARDSON'S REMARKS, THE EMBASSY OFFICER ASSURED VLAHOV THAT THE SECRETARY WOULD EXPRESS HIS UNDERSTANDING OF THE SERIOUSNESS AND DELICACY OF THE PROBLEM IN WASHINGTON. THE EMBASSY OFFICER EXPRESSED HOPE THAT THE GOY WOULD GIVE PROMPT AND FAVORABLE RESPONSE TO ANY REQUEST FOR ADDITIONAL SAFEGUARDS, AND THUS BECOME A LEADER IN INTERNATIONAL EFFORTS THE GOY ITSELF WAS ADVOCATING

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TO PRECENT NON-PROLIFERATION. VLAHOV, PERHAPS SIGNALLING THE POSITION OF SENIOR YUGOSLAV OFFICIALS, REPLIED THAT THE GOY WAS WILLING TO DISCUSS ADDITIONAL SAFEGUARDS BUT CONSIDERED IT ESSENTIAL TO OBTAIN EQUIPMENT NEEDED TO KEEP THE PROJECT ON SCHEDULE WHILE DISCUSSIONS WERE TAKING PLACE.

8. SALES OFFICES: RESPONDING TO YUGOSLAV INTEREST IN EXPANDING BILATERAL ECONOMIC RELATIONS, SECRETARY RICHARDSON ASKED WHETHER THE YUGOSLAVS WOULD WORK OUT UNDERSTANDINGS AND MODIFICATIONS OF LAW WHICH NOW PROHIBITS FOREIGN FIRMS FROM OPENING SALES OFFICES IN YUGOSLAVIA. THE SECRETARY POINTED OUT THE UTILITY TO THE YUGOSLAVS OF PERMITTING SUCH OFFICES NOT ONLY AS SALES OUTLETS BUT TO ACQUAINT FOREIGN FIRMS WITH MARKET OPPORTUNITIES WHICH MIGHT ENCOURAGE FOREIGN INVESTORS TO PRODUCE GOODS IN YUGOSLAVIA. SECRETARY LUDVIGER REPLIED THAT YUGOSLAVIA IS

PREPARING A REGULATION WHICH WILL QTE SOMEWHAT LIBERALIZE AND BROADEN UNQTE EXISTING PROVISIONS. LUDVIGER NOTED YUGOSLAVIA'S WISH TO ADHERE TO CSCE BASKET II PROVISIONS, PARTICULARLY SINCE BELGRADE WILL HOST CSCE 77.

9. FOREIGN INVESTMENT IN YUGOSLAVIA: SEIZING UPON SECRETARY LUDVIGER'S REMARKS THAT JOINT VENTURES COULD FACILITATE YUGOSLAVIA'S DEVELOPMENT GOALS, SECRETARY RICHARDSON REGISTERED U.S. CONCERN
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OVER YUGOSLAV IMPEDIMENTS TO FOREIGN INVESTMENT. THE SECRETARY SAID THAT THE YUGOSLAV REGULATION OF JUNE 1976 WAS AMBIGUOUS AND LEFT US COMPANIES UNCERTAIN OVER YUGOSLAV INTENTIONS AND UNCLEAR AS TO WHETHER THE YUGOSTEVS WERE ESTABLISHING REAL IMPEDIMENTS TO INVESTMENT. MOST ROUBLESOME WERE THE PROVISIONS WHICH ON THEIR FACE SEEMED TO EXCLUDE CERTAIN RESPONSIBILITIES FUNDAMENTAL TO PROFITABILITY FROM THE AUTHORITY OF THE BUSINESS BOARD AND VEST THEM IN THE WORKERS COUNCIL WHERE THE FOREIGN INVESTOR IS NOT REPRESENTED. THE AMBASSADOR OBSERVED THAT THE REGULATION GAVE RISE TO BROAD CONCEPTUAL QUESTIONS WHICH SEEMED TO ALTER THE STRUCTURE OF JOINT VENTURES; IT SEEMED TO RESTRICT THE ABILITY OF A FOREIGN INVESTOR TO DISCUSS QUESTIONS WHICH PREVIOUSLY WERE NEGOTIABLE. THE SECRETARY REMINDED THE YUGOSLAVS THAT US FIRMS WERE ALSO CONFRONTED WITH OTHER PROBLEMS SUCH AS LIMITS ON PROFIT REPATRIATION AND SOME RESTRICTIONS ON IMPORTS OF EQUIPMENT FOR JOINT VENTURES.

10. SECRETARY LUDVIGER REPLIED DEFENSIVELY THAT YUGOSLAVIA PROVIDES STABLE ARRANGEMENTS INCLUDING CONSTITUTIONAL GUARANTEES FOR FOREIGN INVESTMENT. YUGOSLAVIA WISHED TO BROADEN COOPERATION WITH FOREIGN INVESTORS, HE EMPHASIZED. HE CONCEDED, HOWEVER, THAT THE JUNE 1976 REGULATION, THOUGH A TEMPORARY MEASURE, HAD PROVOKED MUCH CONFUSION AND MANY INQUIRIES FROM ABROAD. HE AFFIRMED THAT THE YUGOSLAV GOVT WOULD SEE THAT PROVISIONS TO BE INCORPORATED IN THE NEW FOREIGN INVESTMENT LAW, EXPECTED SHORTLY, WILL BE SATISFACTORY FOR FOREIGN COMPANIES. HE ASKED THAT THE USG INTERPRET YUGOSLAV INTENTIONS TO AMERICAN INVESTORS AND EXPLAIN THAT THE NEW LAW WOULD BE MORE COMPREHENSIBLE AND TAKE INTO ACCOUNT FOREIGN CONCERNS.

11. U.S. EXPORT CONTROL PROVISIONS: SECRETARY MINIC AND SECRETARY LUDVIGER BOTH VOLUNTEERED THAT YUGOSLAVIA WOULD ADHERE VERY STRICTLY TO THE COMMITMENTS WHICH THE GOY UNDERTOOK IN RECENT BILATERAL DISCUSSIONS. THEY ASSERTED THAT THE YUGOSLAV GOVT NEITHER KNEW OF NOR AGREED WITH SUSPECTED DIVERSIONS BY YUGOSLAV ENTERPRISES AND STRESSED THAT THE GOVT WOULD BE VERY RIGOROUS WITH ANY ORGANIZATION WHICH MIGHT ATTEMPT TO SIDE-STEP YUGOSLAV COMMITMENTS IN THE FUTURE.

12. THE SECRETARY WELCOMED THE YUGOSLAV ASSURANCES AND

ANNOUNCED THAT AS A RESULT OF THE RECENT UNDERSTANDING THE USG
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HAS APPROVED 10 EXPORT LICENSE APPLICATIONS WHICH HAD BEEN
HELD UP PENDING THE OUTCOME OF THE DISCUSSIONS. THE SECRETARY
NOTED THAT U.S. REVIEW OF OTHER OUTSTANDING CASES WAS CONTINUING
WITH THE AIM OF ADDITIONAL LICENSE APPROVALS IN THE NEAR FUTURE.
HE NOTED, HOWEVER, THAT APPLICATIONS INVOLVING SUSPECT FIRMS
COULD BE HELD UP PENDING COMPLETION OF THE YUGOSLAV INVESTIGATION
INTO ALLEGED DIVERSIONS.

13. U.S. GENERALIZED SYSTEM OF PREFERENCES: SECRETARY
LUDVIGER EXPRESSED SATISFACTION WITH THE BENEFITS THAT THE
US GENERALIZED SYSTEM OF PREFERENCES HAS BROUGHT TO YUGOSLAV
EXPORTERS. HE CONVEYED YUGOSLAV CONCERN OVER PETITIONS NOW
PENDING TO REMOVE CERTAIN MERCHANDISE, PARTICULARLY WOODEN
CHAIRS, FROM THE LIST OF PRODUCTS ACCORDED DUTY FREE ENTRY.
THE SECRETARY SUGGESTED THAT THE YUGOSLAVS MAKE THEIR VIEWS
KNOWN IN FORMAL FASHION TO USG BEFORE HEARINGS SCHEDULED
DEC 14 AT WHICH THE YUGOSLAVS COULD ALSO PRESENT TESTIMONY.

14. U.S. MARAD DENIAL OF WAIVERS: SECRETARY LUDVIGER PROFESSED
TO BE PUZZLED OVER WHY THE US MARAD ADMINISTRATION HAD BEGUN
TO REFUSE WAIVERS PERMITTING YUGOSLAV VESSELS TO TRANSPORT
EXIMBANK-FINANCED US EXPORTS. HE DENIED THAT YUGOSLAVIA
PROVIDES SUBSIDIES TO ITS SHIPPING COMPANIES. EXPLAINING THAT
YUGOSLAVIA PROVIDES QTE TAX RELIEF UNQTE TO SHIPPERS, RATHER
THAN A SUBSIDY TO SHIPPING COMPANIES, LUDVIGER ATTRIBUTED US
SUSPICIONS TO A MISUNDERSTANDING. SECRETARY RICHARDSON
SUGGESTED THAT THE EMBASSY REVIEW THE MATTER WITH YUGOSLAV
OFFICIALS AND THAT THE YUGOSLAV GOVT PROVIDE A DETAILED
WRITTEN EXPLANATION OF ITS SYSTEM.

15. BILATERAL AIR AGREEMENT: SECRETARY MINIC INFORMED SECRETARY
RICHARDSON OF YUGOSLAVIA'S GREAT INTEREST IN EARLY NEGOTIATION
OF AN AIR AGREEMENT TO REPLACE THE TEMPORARY AGREEMENT WHICH
EXPIRES IN MARCH 1977. SECRETARY RICHARDSON AGREED TO CONVEY
THE YUGOSLAV REQUEST TO THE APPROPRIATE OFFICES IN THE
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